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Congress Gears Up for Trade Issues

Now that Congress has disposed of organizational matters and the controversial appointment of Edwin Meese as Attorney General, its attention is turning to the budget and pressing trade issues. With a few exceptions -- particularly automotive imports -- trade is still on the back burner, but interest should increase with the announcement of first-quarter trade figures and in discussions on the fiscal 1985 budget.

One of the most significant trade budget issues facing Congress is the Reagan administration's proposal to restructure the Export-Import Bank and eliminate direct loans in favor of interest subsidies to U.S. exporters. The administration is proposing $12 billion in loan guarantees and insurance, a $2 billion boost, and the elimination of the $3.8 billion direct lending program. The Ex-Im budget debate is also likely to raise the issue of export subsidization by foreign governments.

the views of the private sector and with the permission of the Ministers of International Trade and Industry and Posts and Telecommunications. Only one Center may be established. The Center will provide financing and conditional interest-free loans for private research and experiments; promote joint public-private research; accept research commissions from the private sector; employ foreign researchers; offer a data base, conduct surveys, etc.

- The Center's basic capital of Y12 billion ($47 million) and initial operating budget of Y4 billion ($16 billion) will be provided in the fiscal 1985 budget.

- The Center will be established October 1, 1985.

*Unofficial translation.

Source: Ministry of International Trade and Industry Bulletin, February 19, 1985.

Japan's 1984 Balance of Payments Sets Records

1984 was a record-setting year for the Japanese economy from a balance of payments standpoint. The strong demand for Japan's exports and the liberalization of its capital markets are clearly responsible for the all-time-high current account and trade surpluses presented in the following table, as well as the record deficits in long- and short-term capital.

Japan's Global Balance of Payments

(in millions of dollars, IMF value basis, seasonally unadjusted)

	1980	1981	1982	1983	1984(p)
Exports (f.o.b.)	$126,736	$149,522	$137,663	$145,468	$168,268
	(25.2%)	(18.0%)	(-7.9%)	(5.7%)	(15.7%)
Imports (f.o.b.)	124,611	129,555	119,584	114,014	123,917
	(25.4)	(4.0)	(-7.7)	(-4.9)	(8.7)
Trade Balance	2,125	19,967	18,079	31,454	44,351
Services	-11,343	-13,573	-9,848	-9,106	-7,816
	(-19.7)	(-19.6)	(27.4)	(8.0)	(14.2)
Transfers	-1,528	-1,624	-1,381	-1,549	-1,511
	(-35.6)	(-6.3)	(15.0)	(-13.5)	(2.5)
Current-Account Balance	-10,746	4,770	6,850	20,799	35,024
Long-Term Capital	2,324	-9,672	-14,969	-17,700	-49,832
	(117.9)	(-516.2)	(-54.8)	(-18.9)	(-181.5)
Basic Balance	-8,422	-4,902	-8,119	3,099	-14,808
Short-Term Capital	3,141	2,265	-1,579	23	-4,675
	(14.8)	(-27.9)	(-169.7)	(111.1)	(-20,817.4)
Errors and Omissions	-3,115	493	4,727	2,055	4,283
Overall Balance	-8,396	-2,144	-4,971	5,177	-15,200

Note: Figures in parentheses are percentage changes from previous year.

Booming automotive, electronic office equipment and video cassette recorder exports to the United States made a large contribution to the 15.7 percent growth of exports, while falling oil prices and steady commodity prices held import growth to a moderate 8.7 percent.

An upsurge in capital exports accompanied the rise in merchandise exports, and aided by looser controls and new financial instruments, the deficits in the long-term and short-term capital accounts hit record levels. The effects of capital market liberalization are most distinct in quarterly long-term capital balance figures. The net outflow for the first three months of 1984, totaling $5.8 billion, was unremarkable. But the red ink grew by leaps and bounds in the remaining quarters, hitting levels of $14.3 billion, $12.4 billion and $17.3 billion, respectively. December's record $8.4 billion net long-term capital outflow capped an extraordinary year and set the stage for even more red ink in 1985.

The short-term capital market also seems to be enjoying strong domestic and foreign interest. Japanese companies have traditionally minimized the use of short-term financial instruments and foreigners, finding no attractive investments in the market, had relegated it to an ancillary role. As Japanese banks and corporations have become more heavily involved in international finance and as financial regulations have changed, the short-term market has gained increasing attention.

American officials have been pointing to Japan's large trade surplus as a threat to the international trading system, comparing its growth rate with the surpluses run up by oil-exporting countries in the 1970s. What they fail to note, however, is that the net outflow of long-term capital from Japan in 1984 more than offset the trade surplus. Combined with its deficit in services trade, Japan ran a $15.2 billion overall balance of payments deficit -- the highest level since 1979. Moreover, while there was some concern over the willingness of the oil-producing countries to recycle their trade surpluses through international financial markets, there is no doubt about Japan's willingness. A complete picture of Japan's balance of payments shows that Japan is giving as much as it receives, a positive development for the global economy.

Jon Choy

Restraints on Japanese-Made Cars Coming to an End?

With the end of the fourth year of Japan's restraints on U.S.-bound car shipments just a month away, the White House still refuses to acknowledge formally what practically everyone in Washington accepts as a foregone conclusion: that Tokyo will not be lobbied to extend the restrictions for another year. The only questions left, sources say, are the exact timing of Mr. Reagan's decision and whether the president should actually ask the Japanese government to scrap the restrictions or simply let Tokyo take the initiative.

Administration support for limits on Japanese-made car exports to the United States, divided from the start, has steadily waned since the beginning

U.S. Retail Sales of Imported Japanese Cars, 1980-84

(units)

Manufacturer/Seller	1980	1981	1982	1983	1984
Toyota Motor Corp.	582,204	576,491	530,246	555,766	557,981
Nissan Motor Co., Ltd.	516,890	464,805	470,246	521,902	485,298
Honda Motor Co., Ltd.	375,388	370,705	365,865	350,670	374,819
Mazda Motor Corp.	161,623	166,105	163,638	173,388	169,666
Fuji Heavy Industries, Ltd. (Subaru)	142,968	152,062	150,335	156,840	157,385
Mitsubishi Motors Corp.	0	0	3,950	32,755	39,104
Isuzu Motors, Ltd.	0	17,805	15,462	20,731	17,233
Mitsubishi Motors Corp./Chrysler Corp.	129,350	110,940	102,227	103,569	91,718
Suzuki Motor Co., Ltd./General Motors Corp.	0	0	0	0	10,927
Isuzu Motors, Ltd./General Motors Corp.	0	0	0	0	2,077
Total Japanese Imports	1,908,423	1,858,913	1,801,969	1,915,621	1,906,203
Total Imports	2,396,934	2,326,376	2,221,398	2,382,799	2,440,258
Total Domestic Makes	6,578,275	6,206,296	5,756,660	6,795,302	7,951,517
Japan's Market Share	21.3%	21.8%	22.6%	20.9%	18.3%

Source: Automotive News

of 1983, eroded by month after month of sales gains for the U.S. Big Three car manufacturers and two years of record-breaking profits. Commerce Secretary Malcolm Baldrige, long considered the major proponent of curbs on Japanese car exports, was the first convert, coming out last March against a fifth-year extension, but he was quickly joined by United States Trade Representative William E. Brock (see JEI Report No. 12B, March 23, 1984, and No. 19B, May 11, 1984). By the time the renewal issue was put to a formal cabinet vote February 19, not one of the president's top advisers was prepared to make the case for continued restraints.

The unanimous recommendation of the Cabinet Council on Commerce and Trade that Mr. Reagan not ask Japan for another year of export restrictions will be forwarded to him only after review by the State Department and the National Security Council. The president is said to agree with his advisers, but at a news conference February 22, he refused to commit himself. Mr. Reagan suggested that his decision hinges on the steps Japan takes to improve market opportunities for U.S. exporters of telecommunications equipment and other products -- a linkage cabinet officials reportedly opted against.

Both the Japanese government and motor vehicle exporters are proceeding on the assumption that formal restraints will end March 31. Spokesmen are quick to note that this does not mean there will be a big jump in exports. Adjectives like "prudent" and "reasonable" are being used by auto industry executives to describe their U.S. sales strategies in the coming months. They maintain that production capacity constraints at home and limited dealer networks here preclude an export surge. Industry leaders also acknowledge, if only tacitly, that political realities dictate a go-slow approach.

Concerned that a system of self-restraint by the auto industry could easily crumble if Japan's smaller manufacturers try to make up for four years of restricted U.S. sales opportunities, the Ministry of International Trade and Industry (MITI) is examining informal ways to keep exports in check. Each of MITI's options, however, has the same drawback as self-restraint by car exporters: it is open to U.S. challenge on antitrust grounds. The ministry must also figure out how to keep shipments at a politically acceptable level without further penalizing smaller exporters.

While Japanese automotive makers use "reasonable" or "prudent" to describe their export plans, they are reluctant to cite any numbers. At a minimum, it is clear, manufacturers want to ship enough cars to the United States so that inadequate inventories will no longer cost their U.S. dealers sales. Skimpy stocks have plagued dealers ever since a cap was placed on Japanese car shipments, but the real crunch came last year. Despite booming U.S. car demand and a 10.1 percent rise in the FY 1984 export ceiling, sales of Japanese cars fell (see accompanying table). Japanese car makers are obviously anxious to prevent a replay of this situation in 1985.

Susan MacKnight

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.